

FINANCE COMMITTEE POLICY

Fauquier County, Virginia

Policy Title: Fund Balance Management (FC-5)

Effective Date: June 1, 2020
Supersedes Policy: May 12, 2011

I. Purpose

The Board of Supervisors recognizes the significance of maintaining an appropriate level of fund balance as one component of sound financial management; and, therefore, formally establishes this policy for the County's Fund Balance. An adequate fund balance level is an essential element in both short-term and long-term financial planning, and serves to mitigate the impact of future risks, sustain operations during economic downturns, and enhance creditworthiness. Through the maintenance of adequate levels of fund balance, the County can help stabilize funding for operations, stabilize taxes and fees, and realize cost savings in issuing debt. The County has achieved a prudent level of fund balance to enable it to set aside the funds needed to meet the target established herein.

II. Scope

This policy establishes the level of unassigned fund balance required for the County's General Fund and fund balance management. It sets forth the levels deemed appropriate for County operations, and the protocol for the use and maintenance of the established levels. Further, the policy discusses the fund balance of other funds and the impact on the General Fund. This policy is established on the modified accrual basis of accounting for governmental funds.

III. Components of Fund Balance

Fund Balance is the difference between assets and liabilities reported in governmental funds. It serves as a measure of financial resources available for current operations. The Governmental Accounting Standards Board prescribes the classification scheme for components of fund balance. The types of fund balance components are non-spendable, restricted, committed, assigned and unassigned. The policy will focus on the amount remaining after accounting for non-spendable and restricted fund balance, which is comprised of three elements; committed, assigned and unassigned fund balance.

Types	Definition	Example
Non-spendable	Amounts that cannot be spent because they are not in spendable form or for legal or contractual reasons must be kept intact.	<ul style="list-style-type: none">• Inventory;• Prepaid expenses;• Long-term receivables (including long-term interfund receivables);• Corpus of an endowment fund;
Restricted	Constraints placed on the use of these resources are either externally imposed by creditors, grantors, contributors, or other governments; or imposed by law through constitutional provisions or enabling legislation.	<ul style="list-style-type: none">• Federal grants;• Unspent bond proceeds;• Bond covenants;• Taxes raised for a specific purpose;

This policy will focus on the amount remaining after accounting for nonspendable and restricted fund balance, which is comprised of the following three types:

Types	Definition	Example
Committed	Financial resources that can only be used for specific purposes pursuant to constraints imposed by formal action of the Board of Supervisors. Constraints may only be removed or changed by taking the same type of action previously committing these amounts.	<ul style="list-style-type: none"> • Requires action by the highest level of decision making authority. No delegation of authority is allowed; • Limitation imposed no later than the close of the reporting period; • “Rainy Day” funds with limitation imposed by formal action pursuant to this category; • Encumbrances (amounts imposed by formal action);
Assigned	That portion of fund balance intended to be used for a specific purpose as expressed by the Board of Supervisors a local body, or official to which the Board of Supervisors has delegated the authority to assign amounts including but not limited to the County Administrator and the Office of Management and Budget.	<ul style="list-style-type: none"> • Encumbrances (amounts imposed by informal action pursuant to this category, but that are neither restricted nor committed); • Recommended use of fund balance at year-end;
Unassigned	That portion of unrestricted fund balance that has not been committed or assigned for other uses; therefore, it is available to spend in future periods.	<ul style="list-style-type: none"> • 10% set aside for emergency needs as approved by the Board of Supervisors;

IV. Fund Balance Requirements

- A. The Government Finance Officers Association recommends that at a minimum, the total of committed, assigned and unassigned fund balance in the General Fund be available to cover at least two months of operating revenues or expenditures. The County sets the level of fund balance needed to mitigate risks and minimize costs associated with debt as follows:
 1. The level of unassigned fund balance at each fiscal year end shall be set at ten percent (10%) of general operating revenues.
 2. Ten percent (10%) is identified as the minimum amount needed to safeguard the County’s financial stability and as one component in maintaining its bond ratings. This level, when combined with committed and assigned balances, provides the County with sufficient funds to operate in excess of two months without interrupting service levels.
- B. Appropriations or transfers from the fund balance that would cause the fund balance to be below the minimum of ten percent of operating revenue shall occur only in the event of emergency needs as approved by the Board of Supervisors; this includes balance sheet

transactions which do not require appropriations, but which may impact the level of unassigned fund balance, such as long-term interfund receivables that are classified as non-spendable.

- C. Fifty percent (50%) of the unassigned fund balance of the General Fund and Fire and Rescue Levy Fund will be transferred to their respective capital reserves in the Capital Improvement Fund as part of the annual carryover process to support pay-as-you-go capital/asset replacement costs or 10% cash funding requirements on capital projects, unless otherwise determined by the Board of Supervisors.
- D. Fund balance shall be evaluated during the annual budget process. It shall be the goal of the Board of Supervisors to adopt a budget that maintains the target established herein.
- E. When both restricted resources and other resources are available to be used for the same purpose, it is the County's policy to use restricted resources first, and then committed, assigned and unassigned fund balance as they are needed.

V. Policy Compliance

- A. The County's Finance Department in coordination with the Office of Management and Budget shall submit an annual report to the Board of Supervisors upon substantial completion of the audit, with the annual carryover package. If the County does not meet its target, a compliance plan shall be submitted to the Board for approval which will meet this policy by the end of the subsequent fiscal year, or based on an alternate plan as approved by the Board of Supervisors.
- B. The County shall demonstrate compliance with this policy in its annually adopted budget.

VI. Governmental Fund Categories and Fund Types

- A. General Fund
 - 1. The County's general operating fund accounts for all governmental activities unless required to be accounted for in another fund.
- B. Capital Projects Funds
 - 1. Fund balances in the Capital Funds are maintained to support the projects adopted in the Asset Replacement and Capital Improvement Program. The balances in these funds are either committed or assigned for specific projects/uses.
 - 2. Annually, cash transfers are made from the supporting operating fund for projects that are approved as cash basis.
 - 3. Debt proceeds are maintained in the Capital Projects Fund for those projects funded with debt.
 - 4. The fund balance in these funds minimizes any potential liability for the General Fund.
- C. Special Revenue Funds
 - 1. Any revenue in excess of expenditures is retained in these funds. If expenditures are approved in excess of revenues, the General Fund will bear the cost. The fund balance target established for the General Fund takes this potential liability into account.
- D. Schools Operating Fund
 - 1. The Schools Operating Fund does not maintain a fund balance.
 - 2. At each fiscal year-end if revenue exceeds expenditures, after accounting for carry forward expenditures, the surplus is allocated by resolution. The General Fund is the primary support for the Schools Operating Fund. In the event, the Schools experience revenue shortfalls or increased costs of operation, the General Fund may be impacted. The fund balance target established for the General Fund takes this liability into account.

E. Proprietary Funds

1. The County currently has four Proprietary Funds: Landfill & Recycling Fund, Airport, Fleet Maintenance and Health Insurance.
2. These operations are intended to be self-supporting. As such, the charges for services should be adjusted to cover any deficits.
3. In the event of deficits, the General Fund may approve a loan to cover the deficit with an appropriate repayment schedule. The fund balance target established for the General Fund takes this liability into account.

F. Debt Service Funds

1. The Debt Service Fund provides for the payment of debt service, both principal and interest, to fund capital projects. In the event debt service expenditures exceed the debt service budget, the General Fund will be impacted. The fund balance target established for the General Fund takes this liability into account.